

CORPORATE GOVERNANCE STATEMENT

The Board of Frontken Corporation Berhad (the “Company”) recognises the importance of adopting high standards of corporate governance in the Company in order to safeguard stakeholders’ interests as well as enhancing shareholders’ value. The Directors consider corporate governance to be synonymous with four key concepts, namely transparency, accountability, integrity as well as corporate performance.

This corporate governance statement (“Statement”) sets out how the Company has applied the 8 Principles of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) and observed the 26 Recommendations supporting the Principles during the financial year following the release of the MCCG 2012 by the Securities Commission in late March 2012. Where a specific Recommendation of the MCCG 2012 has not been observed during the financial year under review, the non-observation, including the reasons thereof and, where appropriate, the alternative practice, if any, is mentioned in this Statement.

Principle 1 – Establish clear roles and responsibilities

1.1 Board should establish clear functions reserved for Board and Management

To enhance accountability, the Board has established clear functions reserved for the Board and those delegated to Management. There is a formal schedule of matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Company are in its hands. Key matters reserved for the Board include, inter-alia, the approval of annual budgets, quarterly and annual financial statements for announcement, investment and divestiture, as well as monitoring of the Group’s financial and operating performance. Such delineation of roles is clearly set out in the Board Charter (“Charter”), which serves as a reference point for Board activities.

The Charter, which is reviewed annually by the Board to ensure its relevance with prevailing requirements, provides guidance for Directors and Management regarding the responsibilities of the Board, its Committees and Management; the requirements of Directors in carrying out their stewardship role and in discharging their duties towards the Company; as well as boardroom activities. As at the end of the financial year under review, the Board Charter had not been made publicly available. Nonetheless, steps will be taken to upload the salient features of the Charter on the Company’s website at www.frontken.com in line with Recommendation 1.7 of the MCCG 2012.

To assist the Board in fulfilling its duties and responsibilities, the Board has established the Audit Committee, Nomination Committee and Remuneration Committee. Each committee is tasked with specific functions to operate within its terms of reference, which are included in the Charter. The ultimate responsibility for decision making, however, lies with the Board.

1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions

Reviewing and adopting a strategic plan for the Company

The Board reviewed the strategic plan of the Company tabled by Management at its meeting. The strategic plan would cover the performance targets and long term plans of the Company. It is expected that on an annual basis, Management would table an annual budget for the new financial year. In addition, for any new business ventures, a proper and well researched meeting paper would be required for tabling at the Board meeting so that the matter could be deliberated and decided without delay.

The Executive Chairman would lead the discussion on the strategic plans for the Company. The Board is satisfied with the strategic plan of the Company as presented by the Executive Chairman. The Board would continue to review the strategic plan to ensure its implementation.

Overseeing the conduct of the Company’s business

The Executive Chairman leads the Board and also takes on a hands-on role in the Company’s day-to-day management. He is supported by an Executive Director and a management team in managing the Company’s business. The Board’s role is to oversee the performance of management to determine whether the business is properly managed. The Board gets updates from Management at the quarterly Board meeting when reviewing the unaudited quarterly results and annual audited financial statements. During such meetings, the Board participated actively in the discussion of the performance of the Company.

The performance of the Executive Chairman and Executive Director is reviewed annually by the Remuneration Committee in accordance with its terms of reference. The assessment process is based on the remuneration framework for the Executive Directors.

Principle 1 – Establish clear roles and responsibilities (CONT'D)

1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (CONT'D)

Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Company engaged an external service provider to assist the Board in establishing an Enterprise Risk Management framework for the Group, formalizing, amongst others, the processes to identify, evaluate, control, report and monitor significant business risks faced by the Group. The Board has approved the Enterprise Risk Management Framework for adoption across the Group. The Board, via its Audit Committee reviews the outcome of risk assessment, including the implementation of appropriate internal controls and mitigation measures to address the risks identified.

Further details of the Enterprise Risk Management Framework are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

Succession planning

The Board views succession planning as important for business continuity. It is acknowledged that with succession planning, the key job vacancies created due to retirement and resignation would be filled quickly and without any business interruption. To ensure its success, the Board has adopted a succession plan to ensure that there are programmes in place to provide for the orderly succession of senior management.

Overseeing the development and implementation of a shareholder communications policy for the Company

The Company's interactive website contained an Investor Relations section where the shareholders could communicate with the Board through the designated Investor Relations officer. The Board has also identified a Senior Independent Director to whom the shareholders can communicate with on matters regarding the Company.

Reviewing the adequacy and the integrity of the management information and internal controls system of the Company

The Board acknowledges the importance of the adequacy and integrity of the information and internal controls system of the Company. Details of the Group's internal control system are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

1.3 Formalise ethical standards through code of conduct and ensure its compliance

The Company does not have a Code of Conduct at this moment. The Board understands the importance of having a Code of Conduct for the Directors and employees. The Board shall look into the development of a Code of Conduct during this financial year and once completed, a summary of the Code of Conduct shall be published in the Company's website.

Meanwhile, the Board has in place a Whistle Blowing Policies and Procedures for the employees to raise genuine concerns about possible improprieties in matters of financial reporting, compliance, malpractices and unethical business conduct within the Group.

1.4 Ensure the Company's strategy promote sustainability

The Board recognises the need for the Company's strategy to include sustainability on the operations. A sustainability process would help the Company to set goals, measure its performance and manage changes in its business. The effort would continue to be monitored by the Board in helping to shape the Company's strategy and policy and ultimately to improve the overall performance.

The details of the sustainability efforts are set out in the Corporate Sustainability Statement in this Annual Report.

Principle 1 – Establish clear roles and responsibilities (CONT'D)

1.5 Procedures to allow Directors access to information and advice

The Company's Board Charter provided a procedure to access to information and independent advice by the Board and Committees. Management is required to supply the Board and Committees with information in a form, timeframe and quality that enables them to effectively discharge their duties. The Directors are provided with copies of the Board paper prior to each meeting to give the Directors sufficient time to evaluate the proposals and if necessary, to request additional information necessary in discharging their duties effectively. The Board has a formal schedule of matters specifically reserved to it for decision, and has clearly defined delegation of responsibilities to committees of the Board and to management including appropriate limits of authority. The Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. A Director may seek independent legal, financial or other advice as they consider necessary at the expense of the Company as a full Board or in their individual capacity, in the furtherance of their duties.

1.6 Ensure Board is supported by suitably qualified and competent Company Secretaries

The Company Secretaries of the Company are suitably qualified and competent to support the Board. The Board is regularly updated by the Company Secretaries on the latest regulatory updates. During the financial year, the Board was briefed by the Company Secretaries on the Corporate Disclosure Guide, the amendments to the listing requirements and Malaysian Code on Corporate Governance 2012.

The Board has access to the advice and services of the Company Secretaries who are responsible for ensuring that the established procedures and relevant statutes and regulations are complied with.

1.7 Formalise periodically review and make public the Board Charter

A copy of the Board Charter is published in the Company's website. The Board Charter sets out the composition of the Board, duties and responsibilities on matters relating to strategy and planning, human resource, remuneration, capital management and financial reporting, performance monitoring, risk management, audit and compliance and board processes and policies, Committees, Chairman of the Board, independence of Directors, access to information and independent advice, dealings in securities, orientation and continuing education and Board assessment.

The Board reviews the Board Charter on an annual basis to be consistent with the relevant regulatory requirements.

Principle 2 – Strengthen composition

2.1 Establish a Nomination Committee comprising exclusively non-executive directors, with majority independent

The composition of the Nomination Committee comprises exclusively Non-Executive Directors with a majority of Independent Directors. The Nomination Committee met three times in year 2012 to deliberate matters within its terms of reference.

The Board has identified a Senior Independent Director who is a member of the Nomination Committee to deal with any concerns from the shareholders. Mr. Aaron Sim Kwee Lein was appointed the Senior Independent Director on 20 February 2012 in place of Mr Ng Wai Pin who was redesignated as the Chairman and Managing Director of the Company. The Board appointed a member of the Nomination Committee instead of the Chairman of the Nomination Committee as the Senior Independent Director as during the restructuring of the Nomination Committee in year 2012, the Board agreed that Mr. Aaron Sim Kwee Lein was suitable to hold this position at that time.

Principle 2 – Strengthen composition (CONT'D)

2.2 Nomination Committee should develop, maintain and review criteria for recruitment process and annual assessment of directors

The Nomination Committee is responsible for reviewing the proposed candidate based on the selection criteria expected of a director and makes recommendation to the Board if the proposed candidate is found to be suitable. The decision on new appointment of directors rests with the Board after considering the recommendation of the Nomination Committee.

The Board has also entrusted the Nomination Committee with the responsibility for carrying out evaluation of board effectiveness in the areas of composition, roles and responsibilities, and whether the respective Board Committees effectively discharge their functions and duties in accordance with their terms of reference. The assessment of Board members takes into account the ability of each member to give material input at meetings and demonstrate high level of professionalism and integrity in decision making process. The Nomination Committee annually reviews the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making.

The Board through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the background, experience, knowledge and skills critical to the Group's business and that each Director with his special contributions brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made. As part of the learning process for new Directors, the Nomination Committee arranges induction sessions for these Directors to meet with the respective Heads of Departments to understand the business of the Group.

The Nomination Committee conducted an annual assessment of the Board as whole and individually of the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board and the effectiveness of the Board of Directors as a whole, the Board Committees and contribution of each individual Director, including Independent Non-Executive Directors and CEO. It also conducted an assessment of the Directors who are subject to retirement at the forthcoming annual general meeting in accordance with the Articles of Association of the Company.

The Nomination Committee takes part in the recruitment of new Directors upon receiving a nomination for new Directors. The review process would entail the assessment of the candidates' background, experience, knowledge and skills critical to the Group's business. Upon the evaluation of the candidates, the Nomination Committee shall report to the Board of its findings and recommendations. The Board would base on the recommendations of the Nomination Committee to proceed to approve or decline the appointment of the candidates as the new Directors of the Company.

For any requisition of nomination by the shareholders, the Nomination Committee would also perform the same review process. However, if the requisition is by way of sections 144 or 145 of the Companies Act, 1965, the Nomination Committee would still carry out its duties if permitted by the requisitionists.

The Board currently consists of 5 members of which none is a female Director. The Board is satisfied with the contribution of each member of the Board through the annual assessment by the Nomination Committee. In the event of a vacancy in the Board, the Nomination Committee has been tasked to include the recruitment of female Directors. The Board would endeavour to recruit a female Director and has set itself to meet the Prime Minister's call of having 30% women's representation at boardroom level by year 2016.

The attendance of the Board Committee members for the financial year ended 31 December 2012:-

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Ng Wai Pin	N/A	N/A	3/3
Dato' Haji Johar bin Murat @ Murad	7/7	3/3	3/3
Aaron Sim Kwee Lein	7/7	3/3	2/2
Jorg Helmut Hohnloser	3/7	0/1	N/A

Principle 2 – Strengthen composition (CONT'D)

2.3 Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

The composition of the Remuneration Committee comprises a majority of Independent Directors. The Remuneration Committee met three times in year 2012 to deliberate matters within its terms of reference.

The Remuneration Committee is responsible for reviewing the remuneration of Directors and senior management to ensure that they are at sufficiently competitive levels and recommending to the Board the remuneration of the directors and senior management. The Company has adopted the objectives as recommended by the MCCG to determine the remuneration of the Directors so as to ensure that the Company attracts and retains directors of the quality needed to manage the business of the Group respectively.

The Remuneration Committee had performed its duty to assess annually the remuneration package of its Executive Directors and Senior Management.

The Board recommends the Directors' fees payable to the Directors on a yearly basis to the shareholders for approval at the annual general meeting in line with the provision of its Articles of Association.

The aggregate remuneration of the directors for the financial year ended 31 December 2012 is as follows:

	Executive Directors	Non-Executive Directors
	RM'000	RM'000
Salaries	2,098	-
Fees	3	125
Bonuses	-	-
Other emoluments	73	-
	2,174	125

The number of Directors whose remuneration falls within the respective bands is as follows:

	Executive Directors	Non-Executive Directors
Below RM50,000	-	4
RM200,001 to RM250,000	1	-
RM900,001 to RM950,000	1	-
RM1,200,001 to RM1,250,000	1	-
	3	4

The MCCG recommends detailed disclosure to be made for each director's remuneration. The Board has chosen to disclose the remuneration in bands pursuant to the Listing Requirements, as separate and detailed disclosure of individual directors' remuneration will not add significantly to the understanding and evaluation of the Company's governance.

Principle 3 – Reinforce independence

3.1 Board should undertake an assessment of its independent directors annually

On an annual basis, the Board through the Nomination Committee assesses the Independent Directors. The Nomination Committee has in place an evaluation process and would report to the Board on its findings. The Board is satisfied with the assessment carried out of the Independent Directors.

3.2 Tenure of independent director should not exceed cumulative term of 9 years. Upon completion of tenure, independent director can continue serving but as non-executive director

The Board does not have any Independent Directors who have served the Board exceeding the tenure of 9 years. Dato' Haji Johar bin Murat @ Murad is currently the longest serving Independent Director amongst the rest of the Independent Directors. He has in cumulative 7 years of service.

The Board notes the recommendations of MCCG and shall address the matter when the time arises.

Principle 3 – Reinforce independence (CONT'D)

3.3 Must justify and seek shareholders' approval in retaining independent directors (serving more than 9 years)

This section is not applicable to the Company in view of section 3.2 above.

3.4 Positions of Chairman and Chief Executive Officer to be held by different individuals

The Board remains mindful of the dual role held by Mr. Ng Wai Pin as the Executive Chairman and Managing Director and that the position of the Chairman should be a Non-Executive Director. However, the Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers of decision. Furthermore, there are sufficient Independent Directors on the Board who are individuals of calibre, credibility and are free from any business or other relationship which could materially interfere with the exercise of their independent judgment. These Independent Directors are capable of exercising independent judgment to ensure fair and objective deliberations at Board meetings.

3.5 Board must comprise a majority of independent directors if Chairman is not an independent director

The Board has an Executive Chairman and understands that where the Chairman is not an Independent Director, the Board must comprise a majority of Independent Directors. As the size of the Board is small, the Board is satisfied that the composition of the Board meets with the minimum requirements of the Main Market Listing Requirements and that there is a balance of power at Board level.

Principle 4 – Foster commitment

4.1 Board should set expectations on time commitment for its members and protocols for accepting new directorships

The Board on an annual basis would agree on the meeting dates for the whole year so that each member of the Board is able to plan his schedule accordingly. This helps to ensure that the Board is committed to meet when the time arises.

The Board has also set a guideline on the acceptance of new directorships by the members of the Board. Any Director intending to take any new directorships should notify the Chairman of the Company first prior to accepting the new directorships and also to confirm his commitment that the new directorships would not impair his time commitment with the Company.

The attendance record of the Board for the financial year ended 31 December 2012 is set out below:-

Directors	Designations	Attendance %
Ng Wai Pin	Executive Chairman and Managing Director	9/9
Dr Tay Kiang Meng	Executive Director / Chief Scientist	9/9
Dato' Haji Johar bin Murat @ Murad	Independent Non-Executive Director	9/9
Aaron Sim Kwee Lein	Independent Non-Executive Director	9/9
Jorg Helmut Hohnloser	Non-Independent Non-Executive Director	6/8*

** Mr Timo attended 2 out of 8 Board Meetings on behalf of Mr Jorg Helmut Hohnloser*

Based on the above, all the Directors of the Company have attended more than 50% of the attendance required by the Main Market Listing Requirements.

4.2 Board should ensure members have access to appropriate continuing education programme

The Board encourages its members to enrol in appropriate continuing education programme to equip them to serve the interests of the Company.

The Directors were updated on an ongoing basis by way of circulars on matters relating to changes to the Listing Requirements. Courses and forums attended by the directors during the year are as follows:

Principle 4 – Foster commitment (CONT'D)

4.2 Board should ensure members have access to appropriate continuing education programme (CONT'D)

Ng Wai Pin	<ul style="list-style-type: none">• Advocacy Sessions on Disclosure For Chief Executive Officers (“CEOs”) and Chief Financial Officers (“CFOs”)• Semicon West Conference• Key Amendments to Listing Requirements 2011 and Corporate Disclosure Guide
Dr Tay Kiang Meng	<ul style="list-style-type: none">• Semicon Singapore Conference• Semicon West Conference
Dato’ Haji Johar bin Murat @ Murad	<ul style="list-style-type: none">• Achieving and Increasing Boardroom Effectiveness and Performance
Aaron Sim Kwee Lien	<ul style="list-style-type: none">• Withholding Tax and Cross Borders Transactions• Strategic Influencing
Timo Fabien Seeberger Jorg Helmut Hohnloser	<ul style="list-style-type: none">• Mandatory Accreditation Programme for Directors of Public Listed Companies• Mandatory Accreditation Programme for Directors of Public Listed Companies

Principle 5 – Uphold integrity in financial reporting

5.1 Audit Committee should ensure financial statements comply with applicable financial reporting standards

The Board through the Audit Committee endeavours to provide and present a balanced and meaningful assessment of the Group’s financial performance and prospects to shareholders, primarily through the annual reports, quarterly announcements of the Group’s results and other price-sensitive public reports. The Board is assisted by the Audit Committee in overseeing the Group’s financial reporting processes and the accuracy, consistency and appropriateness of the use and application of accounting policies and standards, as well as the reasonableness and prudence in making estimates, statements and explanations.

On a yearly basis, the Audit Committee would meet with the External Auditors to go through the Audit Planning Memorandum prior to the commencement of the audit. In addition, the Audit Committee would also meet with the External Auditors to discuss with the External Auditors on their report to the Audit Committee following the completion of their audit. The External Auditors would share with the Audit Committee on any significant issues on the financial statements and regulatory updates. The Audit Committee would obtain the confirmation of the External Auditors with regard to the Company’s compliance with the applicable financial reporting standards.

5.2 Audit Committee should have policies and procedures to assess suitability and independence of external auditors

The Audit Committee has in place an assessment of the External Auditors and would assess them on an annual basis and report to the Board its recommendation for the reappointment of the External Auditors at the annual general meeting.

In addition, the Audit Committee has in place a policy with regard to the provision of non-audit services by the External Auditors. During the financial year ended 31 December 2012, the non-audit services rendered by the External Auditors were RM85,000. The amount of fees incurred were RM80,000.

The External Auditors had provided a written assurance to the Audit Committee that they were independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

Principle 6 – Recognise and manage risks

6.1 Board should establish a sound framework to manage risks

The Board had established a sound framework to identify and management significant risks faced by the Group. Such a framework also includes pertinent risk management policies and guidelines to provide structured guidance to personnel across the Group in addressing risk management, The risk appetite of the Group is articulated via the use of risk parameters in the framework, covering financial and non-financial metrics, to assess the likelihood of risks occurring and the impact thereof should the risks crystallise. Internal controls deployed by Management are linked to, and mitigate, the business risks identified.

Principle 6 – Recognise and manage risks (CONT'D)

6.1 Board should establish a sound framework to manage risks (CONT'D)

The Audit Committee works with the Internal Auditors to ensure that the Internal Audit Annual Plan encompasses the audit of the essential services and the follow up on the audits. The Internal Auditors are also required to perform periodic testing of the internal control systems to ensure that the system is robust.

Further details of the Enterprise Risk Management framework and the system of internal control of the Group are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

6.2 Board should establish an internal audit function which reports directly to Audit Committee

The Group outsources its internal audit function to an independent professional firm, with the objective for conducting systematic testing and assessment of the Group's internal control system based on an internal audit plan approved by the Audit Committee. Its responsibilities include providing independent and objective reports on the state of internal controls of the significant operating units in the Group to the Audit Committee, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the systems.

During the financial year, the internal auditors carried out review of selected key processes of the Company and certain significant subsidiaries, covering high-level internal control framework, financial management, risk management, procurement and inventory management. The total costs incurred by the Company for the internal audit function of the Group in year 2012 amounted to approximately RM38,000.

Details of the internal control system are set out in the Internal Control Statement on pages 30 to 31 of this Annual Report.

Principle 7 – Ensure timely and high quality disclosure

7.1 Ensure Company has appropriate disclosure policies and procedures

The Board has set an internal Corporate Disclosure Policy in compliance with the disclosure requirements as set out in the Main Market Listing Requirements.

The Board delegated the authority to the Executive Chairman of the Company to ensure that Corporate Disclosure Policy is being adhered to by senior management and Company Secretaries in respect to disclosure obligations.

7.2 Encourage Company to leverage on information technology for effective dissemination of information

The Company's website has a section dedicated to shareholders under Investor Relations where shareholders can check on the latest announcements of the Company, press release, media news, share and warrant prices and also to contact the designated person on investor relations matters. The shareholders are also encouraged to subscribe for any news alert of the Company.

Principle 8 – Strengthen relationship between Company and shareholders

8.1 Take reasonable steps to encourage shareholder participation at general meetings

The Board encourages the attendance of the shareholders at the Company's annual general meeting. The notice period of the annual general meeting is given to the shareholders slightly longer than the minimum of 21 clear days. With a slightly longer time, the shareholders are provided with ample time to review the annual report, to appoint proxies and to collate questions to be asked at the annual general meeting.

For this year, the Board has also proposed for the amendment of its Articles of Association in line with the recommendation to adopt electronic voting to facilitate greater shareholder participation in the future general meetings.

Principle 8 – Strengthen relationship between Company and shareholders (CONT'D)

8.2 Board should encourage poll voting

At the commencement of the annual general meeting after the calling of the meeting to order, the Chairman would remind the shareholders, proxies and corporate representatives on their rights to demand for a poll in accordance with the provisions of the Articles of Association of the Company for any resolutions. The Chairman is also aware that he could demand for a poll for substantive resolution to be tabled at the shareholders' meetings.

The Company's share registrar is well equipped to facilitate the conduct a poll should the need arises.

8.3 Board should promote effective communication and proactive engagements with shareholders

Shareholders' meetings are important events for the Board to meet the shareholders. The Chairman would allot sufficient time to encourage the shareholders, proxies and the corporate representatives to ask questions pertaining to the matters tabled at the general meetings. The senior management and External Auditors are present at the shareholders' meetings to answer any query that the shareholders, proxies and corporate representatives may ask.

This statement is made in accordance with the resolution of the Board dated 23 April 2013.